GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

Inspector General

September 19, 2000

Gregory P. Irish
Director
Department of Employment Services
500 C Street, N.W., Room 600
Washington, D.C. 20001

Dear Mr. Irish:

Enclosed is the final report on the audit of the Disability Compensation Program within the Department of Employment Services (DOES). This audit was conducted by contract under the purview of the Office of the Inspector General. The audit disclosed that the Disability Compensation Program as currently administered by DOES lacks efficiency and effectiveness, and there is an increased risk of waste, fraud, and abuse in the program. Specifically, the audit revealed that DOES needs to:

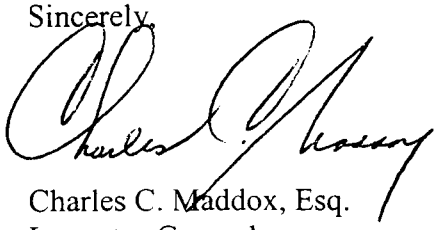
- implement a team to provide adequate oversight and monitoring of contractors;
- take action to collect overpayments estimated at $1 million;
- devise procedures for developing budgets, claims subrogation, and claims transfer from disability to retirement rolls;
- observe payroll distributions at least once a year to identify ineligible claimants; and
- compare the District active payroll to the disability payroll to identify individuals on both payrolls.

DOES' comments (Appendix A) to the draft report are generally responsive to the intent of the recommendations. However, DOES did not fully agree with recommendations 1, 5, and 8. Therefore, we consider these recommendations to be unresolved.

Generally audit recommendations should be resolved within 6 months of the date of the report. Accordingly, we will continue to work with DOES to reach final agreement on the unresolved issues in this report. DOES' final comments on the unresolved issues should be provided within 60 days of the date of this report.

Should you have questions, please call me on (202) 727-2540 or William J. DiVello, Assistant Inspector General for Audits, on (202) 727-8279.

Sincerely,



Charles C. Maddox, Esq.
Inspector General

Enclosure

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Government of the District of Columbia
Office of the Inspector General

Report on the Review of the Disability Program Within the Department of Employment Services

September 19, 2000

Prepared by:

Report No. OIG-00-1-14CF

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EXECUTIVE SUMMARY

Introduction

The District of Columbia Office of the Inspector General (OIG) contracted Williams, Adley & Company, LLP (WA&Co) to provide professional services in the areas of financial, operational, and compliance reviews of selected functional areas within the Department of Employment Services (DOES), as well as a detailed performance review of the agency. One of the functional areas reviewed is the Disability Compensation Program within the Department of Employment Services (DOES). The overall objectives of the review were to: (1) determine program efficiency and effectiveness in the areas of service delivery and program risk management, and (2) identify areas for cost recoveries and future savings. This report presents the results of our review which was performed during the period January through June 2000. A separate report is issued for each of the other functional areas reviewed.

Results in Brief

On the basis of our review, we concluded that the disability compensation program as currently administered by DOES lacks efficiency and effectiveness, and there is an increased risk for waste, fraud, and abuse in the program for the following reasons:

- Lack of controls over the payment system resulting in overpayment of at least $1 million to program beneficiaries and medical providers.

- Overlapping duties and duplicate processes performed by DOES and outside contractors have resulted in: delays in claims processing; payments to providers before determination of eligibility and compensability; increased overall program cost; and inefficient use of human resources.

- Inadequate oversight and monitoring of duties performed by outside contractors resulting in ineffective case management and increased overall program cost.

- Lack of a risk management program to address issues such as benchmarking, claims subrogation, claims transfer from disability to retirement, and cost charge-back to agencies has resulted in missed opportunities to

reduce program cost and increase efficiency of service delivery.

- Lack of an integrated information management system to provide information on case management and financial activities of the program, including disability payroll.

- Lack of systematic budget process and cost tracking system resulting in significant budget overruns during the past several years.

- Lack of implementation of the recommendations from several recent studies and reports, including the 1998 Management Letter issued by the Citywide Independent Auditor and OIG Audit Report No. 9810-20, *Audit of Disability Compensation Overpayments*, dated March 3, 1999.

In the February 25, 1999 DOES management response to OIG Report No. 9810-20, DOES management agreed to implement the following recommendations:

1. Immediate implementation of edit controls to detect dual disability and payroll payments to employees who return to work.

2. Implementation of procedures to prevent disability payments to employees who are entitled to receive disability payments from other agencies.

3. Implementation of procedures to ensure collection of all relevant information for computing claimant benefits.

4. Collection of disability compensation overpayments.

During our review we found that none of the recommendations had been implemented. Although the agency's Chief Financial Officer began the process of collecting payroll overpayments in April 2000, the delay in implementation increases the risk of fraud, waste, abuse, and forfeiture of monies by the district government that could be used for other needed purposes.

DOES recently issued a Request for Proposal (RFP) to select a single contractor to manage all activities related to the DC disability program. We performed a limited review of the RFP and have communicated our concerns to DOES management for consideration.

Summary of Recommendations

The DOES director should immediately ensure:

1. Provision of adequate controls over payment of benefits and create a team to effect the immediate collection of all overpayments.

2. Implementation of procedures to eliminate overlapping duties and duplicate processes between the Office of Benefit Administration and current and future contractors.

3. Establishment of a team to provide adequate oversight and consistent monitoring of contractors. This should include procedures to measure the performance and efficiency of contractors and the program.

4. Establishment of policies and procedures for benchmarking, claims subrogation, and claims transfer from disability to retirement, and recommendations to the Mayor or City Council for legislation on cost charge-back to agencies.

5. Design and implementation of an integrated information management system to provide information on case management and financial activities of the program.

6. Development of comprehensive policies and procedures for developing budgets and processing all disability claims from the period injury is reported to the time the employee returns to work or transfers from the program.

7. Observation of payroll distribution at least once a year by individuals independent of payroll preparation and authorization to identify ineligible claimants, and comparison of DC active payroll to disability payroll to identify individuals on both payrolls.

Summary of Management's Comments	The Director of DOES stated that the review did not reveal any findings beyond those that Management was fully aware of prior to the review process. However, he concurred with most of the conditions noted and indicated that Management has remained active in designing and/or instituting corrective action measures. Furthermore, the Director of DOES indicated that procedures will be more fully implemented with the selection of a "new" TPA contractor, and will resolve many of the other conditions noted. Full text of Management response to the findings and recommendation is attached to this report as Appendix B.
Evaluation of Management's Comments	DOES Management concurred with most of the conditions noted and recommendations made in this report. DOES Management also indicated that new procedures have been implemented to correct many of the conditions noted and the selection of a "new" TPA will resolve the other conditions. We recommend that the Office of the Inspector General perform a follow-up review to ensure the implementation of the recommendations and new controls put in place by DOES to improve efficiency and effectiveness. Our evaluation of the Management comments on each of the findings and recommendations are listed as Appendix A.

INTRODUCTION

Background

The DC Disability Compensation Program (DCP) was established by the District, a self-insured employer, under the DC Merit Personnel Act (DC Law 2-139) to receive, adjudicate, and compensate, as appropriate, all claims resulting from District government employees injured or killed on the job.

Within DOES, the Office of Labor Standards administers the DCP for District government employees who have suffered on-the-job injuries or accidental death. This includes providing appropriate medical treatment, including emergency medical care, after a District employee sustains an injury or illness on the job and to return them to work expeditiously. It also includes paying compensation for lost wages, scheduled awards, and vocational rehabilitation for injured employees and survivors' compensation to beneficiaries of deceased employees. Excluded are those employees of the uniformed Metropolitan Police and Fire Departments, who are under another program.

The DCP is currently administered by OBA and two outside contractors. One contractor, a managed care organization delivers medical and related services under an agreement with a Preferred Provider Organization (PPO). The PPO members are paid on a fee for service basis. The contractor is also responsible for the review and audit of medical bills from its network of providers, PPO, to ensure reduction of fees for statutory and contractual agreements.

The OBA and the other contractor, the Third Party Administrator (TPA), processes and adjudicates employee claims. This includes coordinating and monitoring wage replacement, medical care, and other payments requested by or paid to employees and providers. The OBA and TPA also develop case files, determine compensability of claims and services, award compensation benefits, investigate cases, and manage injured employees medical services with the medical care organization. The primary responsibility of the OBA is program oversight and supervision of contractors, and the administration of the DCP.

Recent audits and reviews conducted by the OIG have revealed several findings in the areas of fiscal responsibility and program management within DOES that require resolution by the District government. DOES performs a critical mission for the District government and its stakeholders, and is the key agency responsible for the risk management of the District's self-insured DCP. There are over 850[1] active claimants currently receiving compensation payments, and over 1000[2] new claims are processed annually.

The magnitude of the operations and management problems and challenges that DOES faces are discussed in several recent studies and reports, including: the 1998 Management Letter issued by the Citywide Independent Auditor; OIG Audit report No. 9810-20, Audit of Disability Compensation Overpayments, dated March 3, 1999.

Williams, Adley & Co., LLP has been requested by the OIG under Contract No. OIG-9801-WMAC-AUD, to provide professional services in the areas of financial, operational, and compliance reviews of selected functional areas within DOES as well as a detailed performance review of the agency. A separate report is issued for each of the other functional areas reviewed under the aforementioned contract.

Objectives, Scope, and Methodology

Our overall objectives were to determine: (1) program efficiency and effectiveness in the areas of service delivery and program risk management, and (2) the potential areas for cost recoveries and future savings. The scope of the review included determining whether the agency:

- Controlled over payments to claimants and service providers are adequate;
- Maintained a data base of information required to measure performance and efficiency of contractors and program;
- Provided adequate segregation of duties and eliminated overlapping responsibilities between OBA, medical care organization, and the TPA;

[1] Provided by DOES and unaudited
[2] See footnote #1

- Provided adequate oversight and consistent monitoring of contractors;
- Established adequate budget development process; and
- Performed risk analysis and management in the areas of benchmarking, claims subrogation, claims transfer from disability to retirement programs, and cost charge-back to agencies.

We reviewed applicable laws, policies, procedures, and other documents, such as the 1998 Management Letter issued by the Citywide Independent Auditor, OIG Audit Report No. 9810-20, Audit of Disability Compensation Overpayments, dated March 3, 1999; Millennium Consulting, Inc., Report on Disability Compensation Program Procurement Analysis, prepared for the Committee on Government Operations, dated September 30, 1999; and Office of Compliance and Independent Monitoring (DOES-CIM) on site review reports on managed care provider and the Third Party Administrator dated September 4, 1998 and January 23, 1999 respectively. We interviewed responsible DCP officials to obtain information about claims processing, and the procedures and policies implemented to ensure an effective and efficient program. We interviewed responsible personnel of the medical care and management provider, and the Third Party Administrator.

To determine the outside contractors' compliance with contract requirements and policies and procedures, we reviewed contractors' operations, information management systems, record keeping and retention, case files, and claims investigation reports from DOES-CIM.

We reviewed the data collection forms used from the time an on-the-job injury is reported to the medical care organization and inception of a claim for compensability determination, and actual payments of claims to medical and other service providers.

We reviewed and documented the current processes in the administration of the DCP from report of injury to claims compensability determination and payments, to determine areas of overlapping processes and non-value added

functions that should be eliminated for increased efficiency. We also identified the control points in each processing function to ensure that controls are adequate and operating as intended for effectiveness and accountability.

We obtained an electronic file of medical bill payments made in fiscal year 1999 and performed different sort procedures to identify payments that appear to be duplicate payments based on the name of the provider, claimant, and date of injury and date of reported service by the medical provider. We used statistical sampling methodologies to select a sample of payments from the list of potential duplicate payments to medical providers and perform procedures we considered necessary to ascertain if any duplicate medical bill was processed and paid.

We also obtained an electronic file of medical audit fee payments made to the medical care management provider, for fiscal year 1999. We performed different sort procedures to identify payments for bill audit services that were identified as potential duplicate audit fee payments based on the name of claimant and date of injury. We judgmentally selected a sample of payments from the potential duplicate audit fee payments and perform procedures we considered necessary to ascertain if any duplicate audit fee were charged by the medical care management provider and paid for by DOES.

To determine disability payroll overpayment, we obtained and reviewed copies of CA-25, Return to Work Order, maintained by DOES to determine amount of payroll overpayment for fiscal year 1999. We attempted to compare DC active payroll with the disability payroll for fiscal year 1999 and perform payroll distribution and observation to identify ineligible claimants. We were unable to perform these procedures due to inadequate payroll data and documentation from DOES, (see the section on opportunity for cost recoveries and savings in this report for concerns).

The audit and review results portion of this report is organized into two main sections. We discussed findings related to matters of efficiency and effectiveness in the first section and opportunity for cost recoveries and

savings in the other section.

AUDIT AND REVIEW RESULTS

Efficiency and Effectiveness

On the basis of our audit and review, we concluded that the disability compensation program as currently administered by the DOES-DCP lacks efficiency and effectiveness, and there is an increased risk for waste, fraud, and abuse in the program for the following reasons:

- Overlapping duties and duplicate processes performed by DOES and outside contractors have resulted in: delays in claims processing; payments to providers before determination of eligibility and compensability; increased overall program cost; and inefficient use of human resources.

- Inadequate oversight and monitoring of duties performed by outside contractors resulting in ineffective case management and increased overall program cost.

- Lack of a risk management program to address issues such as benchmarking, claims subrogation, claims transfer from disability to retirement, and cost charge-back to agencies has resulted in missed opportunities to reduce program cost and increase efficiency of service delivery.

- Lack of an integrated information management system to provide information on case management and financial activities of the program, including disability payroll.

- Lack of systematic budget process and cost tracking system resulting in significant budget overruns during the past several years.

- Lack of implementation of the recommendations from several recent studies and reports, including the 1998 Management Letter issued by the Citywide Independent Auditor and OIG Audit Report No. 9810-20, *Audit of Disability Compensation Overpayments*, dated March 3, 1999.

The DCP efficiency and effectiveness can be increased

and the cost of the program can also be reduced if the noted deficiencies are corrected, and significant recommendations resulting from other reviews and studies are immediately implemented.

Controls over payment of benefits	As part of our procedures to determine the reasons for the long delays experienced by medical providers, claimants, and other providers in receiving benefit payments, we reviewed the control procedures over the payment of benefits.
Payroll benefits payment	We determined that controls over disability payroll benefit payments are non-existing. During our review, we noted the following deficiencies: • current addresses of claimants are not maintained; • social security number on 35 claimants cannot be provided; • checks are mailed to post office boxes without claimant current residential address on record; and • checks are regularly issued to banks for direct deposit into the claimants bank accounts without adequate case management. We also noted that there is no independent supervisory review of the payroll process other than that provided by the Fiscal Officer, who also is directly involved in payroll processing. This lack of review has led to overpayment resulting from errors in calculating deductions from benefits and keeping claimants on payroll longer than necessary. For example, disability payroll checks to claimants were returned to the DOES management because the claimants have either returned to work or no longer eligible for the benefit. There is no follow-up with the TPA and OBA on a regular basis before each payroll is processed to determine claimants that should be deleted from the payroll. For instance, we noted that about 30 percent of correspondence sent to claimants by the OBA were returned by the US Postal Service because the claimants were not residing at the address listed. For the same pay

period, none of the payroll payments was returned. The last payroll distribution and verification audit to determine ineligible claimants and ghost beneficiaries on the payroll was performed in 1996.

The current payroll processing procedure lends itself to serious abuse and potential for fraud on the part of the TPA, OBA and fiscal division employees because the fiscal division does not review documentation justifying adding claimants to the payroll and there is no supervisory review of payroll generated by the division. Also, records of the prior period payments were not maintained.

To improve the payroll processing and reduce the potential for abuse and fraud, the fiscal division needs to review documentation adding and deleting claimants from the payroll, obtain and maintain current addresses on all claimants, and stop mailing checks to post office boxes and direct deposits to bank accounts for claimants which the agency does not have current residential addresses. The DOES chief financial officer or designee, independent of the payroll processing and authorization, should review payroll for approval, and conduct payroll distribution and verification audits at least twice a year to detect ineligible claimants and ghost beneficiaries.

Medical bills payment

We determined that the control over medical bill payment does not exist. This is an area of greatest concern for waste, fraud, and abuse in the disability compensation program. This is also the area that caused most of the delay and confusion in the claims processing, and significantly increased the amount of wasted resources for processing duplicate bills and researching payments.

There are no procedures to ensure that all bills for claims are tracked and recorded. The TPA, OBA, and medical management provider process and approve bills for payment without determination of compensability. Duplicate bills are routinely presented and processed for payment. There are no procedures to identify which bills have been processed and paid when presented with duplicate bills. Information is not readily available at any stage of the process to inform medical providers as to when bills are received, if approved for payment or claims

denied, and amount and date bill is paid. Even when bills are paid, the check issued does not explain the nature of the payment and what the payment represents. Additional information is not provided to the medical providers to enable them identify which bills are paid to avoid sending duplicate bills or continue adding charges for prior services billed and paid onto bills for new services.

The financial management system used in the fiscal division to process bills lacks the capability to detect duplicate bills. We noted several duplicate bills processed and paid through this system as of fiscal year 1999, and we have reasons to believe that this situation is ongoing in the current fiscal year.[4]

To adequately improve the payment process, all bills must be tracked and documented by the TPA. The TPA upon receiving any bill must assign a unique identifier to the bill before presenting it to the medical provider for audit. The assigned identifier by the TPA should be used by the medical provider on its system to also identify the bill audited. After the bill is audited by the medical provider, it should be returned to the TPA for re-approval and forwarded to the fiscal division for payment. The fiscal division should log and track all approved bills for payment received from the TPA. Only the TPA should send bills to the fiscal division for payment. There should be a regular reconciliation of bills received and paid by the fiscal division to the bills approved for payment by the TPA. All bill status information and inquiry should be made through the TPA.

Overlapping of duties and duplicate processes

Our review of the DCP indicates that there are overlapping duties among the Office of Benefit Administration (OBA) and the contractors. Under the current process, the OBA performs services similar to those performed by the TPA. The OBA along with the TPA perform claims processing, file development, investigation, award of medical and compensation benefits, maintenance of database and other services required to support the compensation and wage replacement aspects of the DCP.

[4] See section on opportunity for cost recoveries and savings for test results on duplicate payments.

The TPA and medical management contractor also perform case management under the current process which include determination of eligibility, compensability, and authorization of independent medical examination.

Our review indicated that these overlapping duties and processes caused a total breakdown in the DCP management, delayed payments to claimants and providers, and resulted in waste of resources. For example, we noted instances where claims denied by the TPA were processed by the medical management contractor and approved for payment by the OBA without any support documentation from OBA to justify reversing the opinion of the TPA. We noted other instances where the same claims were sent to OBA and the TPA for processing. We also noted several other instances where claims were paid without evidence of review and compensability determination by either the OBA or TPA, and claims processed by the medical care management contractor before compensability were determined.

Other examples of waste included instances where senior DOES management personnel were spending significant amount of time reviewing claims that were already reviewed by the TPA or should have been reviewed by contractors, re-authorizing payments to claimants and providers that were already compensated for their claims and services, and developing duplicate files and database on cases that are maintained by the TPA.

To effectively manage the DCP, DOES should require that all cases be outsourced, and that the OBA provide program monitoring and oversight. OBA should also develop the policies and procedures for processing claims that will be strictly adhered to by all contractors. The TPA along with the medical provider should be notified of all injuries to District employees in order for the TPA to begin early adjudication of the claim and determine compensability before benefits are processed for payment.

Only the TPA should provide case management, all recommendations for early intervention services and independent medical examination should be approved by the TPA upon review of recommendation from the medical

management contractor. All bills for payment should be presented to the TPA for compensability determination and forwarded to the medical management contractor for bill audit services. After the audit, the audited bills should be returned to the TPA for tracking purposes and released to the fiscal division for payment. This procedure will reduce the potential for duplicate payments which is a result of delays in processing claims that have not been authorized for payments because compensability of the services have not been determined.

Contractor Monitoring

The disability compensation program as currently administered relies heavily on two outside contractors. A Third Party Administrator (TPA) and the medical care management provider. These two organizations provide most of the required services from report of injury to injury compensability determination, provision of medical care and expeditious return of employees to work. Our review of these organizations and the services they provide indicate that the contractors were not adequately monitored by DOES management personnel.

Specifically, there was no review of the contractors to ensure timely determination of eligibility and compensability of claims, and assessment of quality of service. For example, the TPA contract requires that decisions pertaining to compensability of claims be made within 14 calendar days; notice to concerned parties on compensability decision should be within 18 calendar days; and award of benefits to eligible recipients be within 21 calendar days. For example, we noted that several cases were not compensated within the stipulated period, several claims were processed for payment before eligibility and compensability were determined, and there is no tracking system to monitor the progress of claims and determine when eligibility and compensability notice was provided to concerned parties.

We also noted that the quality of services provided was not monitored and reviewed. For instance, about 85 percent of cases managed by the medical care management provider were provided with early intervention services. The early intervention service is required for managing serious injury cases that will ordinarily result in long time loss and

	increased cost to the District. However, several of the cases for which early intervention services were provided by the medical care management provider did not involve any time loss from work by the claimant. When we inquired of the medical care management provider the procedure for determining which cases qualify for early intervention and the reasonableness of the cases currently deemed eligible for the service, we were informed that there is no procedure in place except for the criteria provided by DOES.
Program risk analysis and management	The DCP as currently managed lacks any element of adequate risk analysis and management. In order for the District government to reduce the DCP cost, efficiently reduce case load, increase accountability at agency level for reduction of injury to employees and expeditious return of employees to work, and discourage fraud, waste, and abuse in the DCP, DOES should consider claims and program benchmarking, claims subrogation, claims transfer from disability to retirement, and cost charge-back to the employing agencies.
Benchmarking	The benchmarking of the DCP will enable the District government to efficiently manage the program. Through adequate data collection, the District can begin to perform comparative analysis of cost such as medical, rehabilitation, and other benefits per claimant to identify potential cases for fraud, waste, and abuse. Determine such statistics as average cost per injury per claimant in the program and compare this to similar cost incurred in order jurisdictions to ensure quality of service, efficiency of program, and reasonableness of contractor charges. As previously stated, the District and its contractors are not collecting all the necessary data needed to perform this and other procedures to enable it measure performance and efficiency of the DCP.
Claims Subrogation	Claims subrogation is a procedure that allows the District government to recover payments made to claimants from third parties that are liable for the claimant's injury and other contributing factors. This could also include fraud recovery, overpayments, and other civil recoveries due the District government for payments made on behalf of

claimants. For this procedure to be successful, accurate data must be kept on each claimant beginning from the day injury was reported. The TPA and medical provider must coordinate efforts with the OBA and the District Office of the Corporation Council (OCC), and when necessary the investigative arm of the Office of the Inspector General (OIG), to immediately identify those cases that should be in subrogation. Case files with all pertinent information should be provided to the OCC by all parties concerned to enable OCC to prepare for litigation when necessary and to adequately communicate with liable parties and their representatives.

Under the current DCP process, claims subrogation recovery is extremely limited due to the fact the pertinent data and complete and accurate case files are not maintained at any level of the process. To adequately assess which claims qualify for subrogation and to allow the OCC to prepare for litigation or enforce any and all collection efforts.

Claims transfer from disability to retirement

Another program area that could result in reduction of caseload and cost to the DCP is the transfer of qualified claimants from the program to the federal retirement program. As part of our review, we have identified work done in this area by the TPA. The TPA management in their memorandum dated September 8, 1998 stated that about 75% to 95% of the current cases in which claimants qualify for disability payroll are eligible for federal retirement benefits.[3] Inquiry has been made of the US Office of Personnel Management (OPM) by the TPA to understand the eligibility requirements of the OPM disability retirement program applicable to current DCP claimants.

As part of an efficient program management, cases should be routinely reviewed to determine those claimants that are difficult to place in light duty status or will eventually be unable to return to work or experience serious reduction in earning capacity. These claimants are potential candidates for retirement and efforts should be made to transfer such claimants from the disability program to the retirement program. As previously advised, DOES should

[3] We did not apply any audit procedures to the percentages quoted in the report

build on the work performed in this area by the TPA and develop a comprehensive procedure to adequately address the implementation requirements of the transfer program. Adequately implementing this transfer program will substantially reduce the cost of the DCP, eliminate the potential for overpayments, reduce waste, fraud, and abuse in the program, and make financial and human resources available for other needed services and programs.

Cost charge-back to agencies

Charge-back of program cost to employing agencies, which include both administrative cost for managing the program and benefit payments to claimants, will hold the line on accountability and contribute immensely towards an efficient and effective program.

The disability program as currently administered does not provide for accountability at agency level to prevent injury to employees and expeditiously return injured employees to work. The charge-back program will encourage agencies to fully participate in claims activities of injured employees and to provide light or modified duty positions to injured employees to reduce cost to the agency. To be fully accountable, the cost of the program chargeable to each agency should be a budget line item where the respective agencies are required to deposit funds in the program to pay for benefits and administration of the program at the beginning of each fiscal year.
The cost to be deposited by each agency at the beginning of each fiscal year should be based on experience rating of the agency resulting from prior claims from the agency. Adjustment to the charge-back for each agency can be provided twice a year to accommodate shortfalls in funding and to refund overpayment by the agencies. Currently, there is no provision for this program either through legislation or executive order, although we were informed by DOES management that a pilot program is been currently implemented at three of the District agencies. Implementation of the program might require legislation from the Council or an executive order from the Mayor. Also, accurate record keeping for claims processed should be maintained to enable verifiable charge-back to agencies and to provide audit trail for agencies to resolve any dispute over charge-backs to the respective agencies.

Integrated information management system	Efficient and effective DCP requires that critical data be collected to measure performance of program and its contractors. Collection of data, such as the location of injury, cause of injury, type of injury, cost incurred on each claimant by function, i.e. medical care, indemnity payment, rehabilitation cost, and length of claim, are necessary to measure performance of the program and increase efficiency. These data will also allow for program risk analysis and implementation of adequate corrective actions to prevent injury to employees, reduce program fraud, and reduce loss of human and financial resources to the District. Also, collection of data such as the length of time taken to determine compensability, notify concerned parties and award benefits to eligible recipients will be useful in monitoring the performance of contractors. Other data to be collected should include number of cases put in early intervention, number of days lost to injury for cases in early intervention, and report on managed cases. The report should include date and type of service, notice of discharge by physician, and time and date employees actually returned to work. This will allow DOES to effectively monitor contractors' performance and program efficiency and effectiveness. However, our review of the DCP and contractors operations indicated that most of the data were not maintained by DOES management or required of the contractors. For example, there was no electronic copy of disability payroll maintained by DOES, social security numbers and correct or current addresses of claimants on payroll were not maintained in the payroll system. For those data required of the contractors, there was no evidence that the contractors collected the required data and there is no procedure in place to determine the completeness and correctness of data.
Controls over budget development	As part of our procedures to determine the reasons for the long delays experienced by medical providers, claimants, and other providers in receiving benefit payments, we reviewed the control procedures over the budget development and it's effect on payment of benefits.

Proper budgeting procedure requires that prior cost history be maintained and used as the baseline for subsequent budgets, while taking into consideration other necessary budget assumptions.

We determined that the DCP budget procedure is not adequate because there is no accurate record of prior cost. According to DOES senior management, the Office of the Mayor maintains control of the budget development and does not involve them in the budget process. The payment process as currently administered cannot reasonably track, monitor, and report all claims against the program except for those invoices already entered into payment system. However, for those invoices entered into the payment system there is no adequate procedure for preventing entering of duplicate invoices. Case files are not maintained to provide insight into future claims.

Implementing procedures to develop and maintain accurate prior cost, track, monitor and report all claims, and maintain case files to project future costs will improve the budget process and reduce potential for delayed payment due to the program exceeding the budgeted allowances and running out of funds. The DOES management should also be allowed to provide input in the budget development process by the Office of the Mayor.

Implementation of significant recommendations resulting from other reviews and studies

As part of the scope of our review, we are required to review the implementation of significant recommendations resulting from other reviews and studies. Specifically, those included in the OIG Audit Report No. 9810-20, Audit of Disability Compensation Overpayments, dated March 3, 1999 and agreed to by the DOES management in its response dated February 25, 1999.

In the February 25, 1999 DOES management response to the OIG disability compensation overpayment draft audit report, DOES management concurred with many of the report findings and agreed to implement the recommendations therein. DOES management agreed to:

1. the immediate implementation of edit controls to detect dual disability and payroll payments to employees who return to work;

2. implement procedures to prevent disability payments to employees who are entitled to receive disability payments from other agencies;

3. implement procedures to ensure collection of all relevant information for computing claimant benefits; and

4. collect disability compensation overpayments.

However, during our review that commenced on January 5 through June 16, 2000 we found that none of the recommendations agreed to have been implemented. The agency Chief Financial Officer has just begun the process for collecting payroll overpayments in April 2000. The agency's delay in implementation of the recommendations increases the risk of fraud, waste, abuse, and forfeiture of monies by the district government that could be used for other needed purposes.

Opportunity for cost recoveries and savings

As part of our review process to determine ways to improve program efficiency and effectiveness, we tested controls over payment of benefits and contractor fees. As stated earlier, we determined that adequate controls were not in existence, which led to overpayments of benefits and contractor fees. We estimated the overpayments and duplicate payments to be about $1 million in fiscal year 1999. The following paragraphs of this section will detail the procedures performed to determine amount of reported overpayments and duplicate payments and the results of the procedures.

Medical bills

To determine the amount of duplicate payments paid in fiscal year 1999 on medical benefit payment to providers, we obtained an electronic file copy of the payments made in fiscal year 1999 from the DC-Office of Financial Operations and Systems (OFOS). We compared and agreed the total payment amount of approximately $7.8 million to the total amount reported on the DC-System Of Accounting and Reporting (SOAR). We also obtained and reviewed payment information support documents from the DOES-Office of the Chief Financial Officer (CFO) to complete the missing data fields, such as name of claimants and date of injury, from the electronic payment

	file. We sorted the payment file by name of claimant and date of injury to identify payments made to providers on behalf of same claimants for same date of injury. This resulting file constituted potential duplicate payments totaling $1.75 million. Using statistical sampling methodology, we selected sample payments from the file of potential duplicate payments to ascertain that they were actual duplicate payments. Based on the results of our sampling, we determined that in fiscal year 1999 duplicate medical payments to providers was approximately $500,000. We considered this amount to be the minimum overpayment amount in fiscal year 1999 because our test sample and results were based on the population of potential duplicate payments of about $1.75 million not the payment population of $7.8 million. We narrowed our sample population to the $1.75 million because the payment documents filing format in the CFO office does not allow for comparison of prior invoice and subsequent invoices from same provider. An additional duplicate payments of approximately $61,000 was identified by the fiscal division during their review of provider payments for duplicates. The sample tested by the office was not included in our sample.
Payroll benefits	DOES make payroll benefit payments to about 850 claimants on a biweekly basis as part of the DCP. To determine the payroll overpayment in fiscal year 1999, we set out to perform three procedures as follows: 1) Obtain the discharge order issued by the medical providers and case managers advising employees and DOES that the injured employee is ready to return to work. We intended to compare the date on the discharge order to the date employee was actually removed from the disability payroll to determine the amount of overpayment; 2) Obtain an electronic copy of the District of Columbia active payroll register and compare it to the electronic copy of the disability payroll for the entire physical year 1999 to determine employees that appear simultaneously on both payroll for each of the pay cycles; and 3) Conduct and observe the distribution of the disability payroll to claimants to identify ineligible claimants.

We determined that the discharge orders to return employees to work were not maintained by DOES for all discharged cases. Based on the available discharge orders and notice provided by employees that they have returned to work and payroll checks returned to DOES, it was estimated that payroll benefit overpayment in fiscal year 1999 is at least $504,000.[5]

We were unable to compare the District of Columbia active payroll to the disability payroll because DOES was unable to provide the electronic copy of the disability payroll for fiscal year 1999. The payroll register (hardcopy) provided by DOES for one of the pay periods did not include the social security numbers of the claimants and agency code, which made it impossible to reliably test the data. We were also unable to conduct and observe the distribution of the disability payroll because DOES did not provide all of the information we requested. We requested social security numbers on 35 claimants for which the numbers were not available on the claimants list, correct social security numbers on 15 claimants for which incorrect social security numbers were provided, and correct and current addresses on about 35 percent of the claimants.

About 140 of the payroll payments to claimants were sent to bank accounts not requiring any form of endorsement by the claimant as proof of eligibility for the payment, DOES was unable to provide information to enable us contact these individuals to arrange for them to pick-up their payroll payments in person with proper identification or letter of authority.

Contractor service fee	Under the current DCP, the medical management service provider is paid under an arrangement where every bill sent for payment by medical providers are reviewed and audited for contractual and statutory fee agreements. The medical management provider is paid $6.85 for each line item of the medical bill reviewed and audited. From inception of the contract with the medical management provider in 1997 to March 31, 2000, about 307,033 medical bills line items were reviewed and audited resulting in total fee payment of about $2.1 million to the medical

[5] See footnote #1

management provider.[6] During our review and test of controls over the bill review and audit procedures, we determined that the controls are not adequate to prevent the medical management provider from multiple review and audit of same medical bill or line. Although, the contractor represented that there system was capable of detecting and preventing duplicate review of bills and line items.

We obtained from the medical management provider the electronic file copy of the fee charged for bills reviewed by claimant and medical provider names and date of service. We sorted the file by name of claimant and date of service identifying similar payments for same date of service. We set out to compare the bills audited and the explanation of benefits provided with the bill to DOES for payment to ensure that the bills or line items are not audited more than once. We discovered that several of the payments were made based only on the explanation of benefits prepared by the medical management provider without the supporting invoice or bill from the medical provider. In other instances, we were unable to determine the time a bill was paid to properly identify the payment voucher that accompany the bill and the explanation of benefits showing the fee charged for the review and audit of the bill by the medical management provider. After encountering these situations, we judgementally selected a sample claimant for which we had established overpayments of medical benefit to determine if any medical bill audit overpayment resulted from the medical benefits overpayment.

Of the lines reviewed and audited for the sample claimant, we found several lines to be duplicates for the bill audit services provided by the medical management contractor. The estimated duplicate is considered low because it resulted from those payments with adequate support such as medical bill, explanation of benefit form, and payment voucher, which represent less than 50 percent of the total lines audited for the sample claimant.

[6] Amount was provided by contractor. Record of payments was not maintained by DOES.

Conclusion

On the basis of our review, we concluded that the disability compensation program as currently administered by DOES lacks efficiency and effectiveness, and there is an increased risk for waste, fraud, and abuse in the program for the following reasons:

1. Lack of controls over the payment system resulting in overpayment of at least $1 million to program beneficiaries and medical providers.

2. Overlapping duties and duplicate processes performed by DOES and outside contractors have resulted in: delays in claims processing; payments to providers before determination of eligibility and compensability; increased overall program cost; and inefficient use of human resources.

3. Inadequate oversight and monitoring of duties performed by outside contractors resulting in ineffective case management and increased overall program cost.

4. Lack of a risk management program to address issues such as benchmarking, claims subrogation, claims transfer from disability to retirement, and cost charge-back to agencies has resulted in missed opportunities to reduce program cost and increase efficiency of service delivery.

5. Lack of an integrated information management system to provide information on case management and financial activities of the program, including disability payroll.

6. Lack of systematic budget process and cost tracking system resulting in significant budget overruns during the past several years.

7. Lack of implementation of the recommendations from several recent studies and reports, including the 1998 Management Letter issued by the Citywide Independent Auditor and OIG Audit Report No. 9810-20, *Audit of Disability Compensation Overpayments*, dated March 3, 1999.

Recommendations

The DOES director should immediately ensure:

1. Provision of adequate controls over payment of benefits and create a team to effect the immediate collection of all overpayments.

2. Implementation of procedures to eliminate overlapping duties and duplicate processes between the Office of Benefit Administration and current and future contractors.

3. Establishment of a team to provide adequate oversight and consistent monitoring of contractors. This should include procedures to measure the performance and efficiency of contractors and the program.

4. Establishment of policies and procedures for benchmarking, claims subrogation, and claims transfer from disability to retirement, and recommendations to the Mayor or City Council for legislation on cost charge-back to agencies.

5. Design and implementation of an integrated information management system to provide information on case management and financial activities of the program.

6. Development of comprehensive policies and procedures for developing budgets and processing all disability claims from the period injury is reported to the time the employee returns to work or transfers from the program.

7. Observation of payroll distribution at least once a year by individuals independent of payroll preparation and authorization to identify ineligible claimants, and comparison of DC active payroll to disability payroll to identify individuals on both payrolls.

Management's Response

The Director of DOES stated that the review did not reveal any findings beyond those that Management was fully aware of prior to the review process. However, he concurred with most of the conditions noted and indicated that Management has remained active in designing and/or

instituting corrective action measures. Furthermore, the Director of DOES indicated that procedures will be more fully implemented with the selection of a "new" TPA contractor, and will resolve many of the other conditions noted.

Full text of Management response to the findings and recommendation is attached to this report as Appendix B.

Evaluation of Management's Response

DOES Management concurred with most of the conditions noted and recommendations made in this report. DOES Management also indicated that new procedures have been implemented to correct many of the conditions noted and the selection of a "new" TPA will resolve the other conditions.

We recommend that the Office of the Inspector General perform a follow-up review to ensure the implementation of the recommendations and new controls put in place by DOES to improve efficiency and effectiveness.

Our evaluation of the Management comments on each of the findings and recommendations are listed as Appendix A.

Appendix A - Evaluation of Management Comments on Findings and Recommendations

Review of Disability Compensation Program within the DOES
Summary of Findings and Evaluation of Management Response

Exhibit A

Findings	Effect (so What?)	Recommendation	DOES Response	Evaluation of DOES Response	
1. Lack of controls over the payment system resulting in overpayment of at least $1 million to program beneficiaries and medical providers	DOES will continue to pay duplicate invoices, payroll payments to ineligible claimants, and waste resources in the administration of program.	Provision of adequate controls over payment of benefits and create a team to effect the immediate collection of all overpayments.	DOES acknowledge that overpayments were made as a result of human error, but did not agree with estimated $1 million in overpayment. Instituted controls to minimize if not eliminate duplicate payments.	DOES management response is inadequate. The controls being instituted by the agency will not solve the problem of duplicate payments, contractor fee overpayment, and payroll overpayment. For example, the agency reported to have created a log of all invoices received and paid. This log will be checked against invoices before payments are made to detect duplicate invoices. At the same time, the agency acknowledged that high volume of vouchers are processed daily by technicians. It will be impossible for the technicians to check the log against the invoices on a daily basis and process invoices timely. This procedure will compound the problem and lead to more duplicate payments.	Unresolved. DOES should consider automated invoicing tracking system that is capable of detecting and/or preventing duplicate payments.

Review of Disability Compensation Program within the DOES
Summary of Findings and Evaluation of Management Response

Exhibit A

Finding	Effect (So What?)	Recommendation	DOES Response	Evaluation of DOES Response	Follow-up Status
2. Overlapping duties and duplicate processes performed by DOES and outside contractors have resulted in: delays in claims processing; payments to providers before determination of eligibility and compensability; increased overall program cost; and inefficient use of human resources	Creates operation inefficiency and waste of resources	Implement procedures to eliminate overlapping duties and duplicate processes between the Office of Benefit Administration and current and future contractors.	Management concurs with the finding. Consolidation of claims processing to a single TPA provider will eliminate overlapping duties. All cases will be transferred to a "new" single TPA vendor.	DOES management response is adequate. However, DOES must ensure that necessary due diligence of all case files is performed to ensure that the actual number of cases and the status of each case is determined prior to the transfer. Otherwise, the agency could be paying excessive fee to new contractor for the takeover of the cases because the number of cases to be managed and level of service to be provided will not be adequately quantified. The problem with the current situation was that since the inception of this TPA contract the agency was unable to determine the actual number of cases being managed by the agency.	Resolved. Follow-up review is recommended to ensure full implementation of the recommendations.

Review of Disability Compensation Program within the DOES
Summary of Findings and Evaluation of Management Response

Exhibit A

Finding	Effect (So What?)	Recommendation	DOES Response	Evaluation of DOES Response	Follow-up Status
3. Inadequate oversight and monitoring of duties performed by outside contractors resulting in ineffective case management and increased overall program cost	Increases program cost and affects delivery of service.	Establishment of a team to provide adequate oversight and consistent monitoring of contractors. This should include procedures to measure the performance and efficiency of contractors and the program.	Management concurs with finding. An outside contractor will be hired to provide necessary oversight.	DOES management response is adequate. However, the task of monitoring contractors is an inherent government function and responsibility. If this service is contracted to another contractor as indicated by the agency, it must still ensure performance and efficiency of the operations of all the contractors? The functions of oversight and measurement of performance and efficiency should be performed by competent and continuously trained government employees.	Resolved. Follow-up review is recommended to ensure full implementation of the recommendations.

Review of Disability Compensation Program within the DOES
Summary of Findings and Evaluation of Management Response

Exhibit A

Finding	Effect (So What)	Recommendation	DOES Response	Evaluation of DOES Response	Finding Status
4. Lack of a risk management program to address issues such as benchmarking, claims subrogation, claims transfer from disability to retirement, and cost charge-back to agencies has resulted in missed opportunities to reduce program cost and increase efficiency of service delivery.	Increases program cost and inefficiency and denied availability of funds for other programs and services.	Establishment of policies and procedures for benchmarking, claims subrogation, and claims transfer from disability to retirement, and recommendations to the Mayor or City Council for legislation on cost charge-back to agencies.	Management concurs with finding. Audit recommendation will be implemented.	DOES management response is adequate.	Resolved. Follow-up review is recommended to ensure full implementation of the recommendations.

Review of Disability Compensation Program within the DOES
Summary of Findings and Evaluation of Management Response

Exhibit A

Finding	Effect (So What)	Recommendation	DOES Response	Evaluation of DOES Response	Finding Status
5. Lack of an integrated information management system to provide information on Case management and financial activities of the program, including disability payroll payments.	Creates program inefficiency that could lead to waste, fraud, and abuse.	Design and implementation of an integrated information management system to provide information on case management and financial activities of the program.	Management concurs with finding. However, DOES states that the OCFO-DOES currently maintains an integrated financial accounting and payment system, and the system provides up to date information regarding the financial activities of the DCP. The new TPA will create and maintain an automated Management Information System.	DOES management response is inadequate. Based on our review and observation of the DCP, the OCFO-DOES did not maintain any integrated financial system to identify what invoices have been paid, when payment was made, and other necessary financial information. This is one reason why there were overpayments and duplicate payments. The agency should ensure that the database to be created by the new vendor meets the requirements of the Program.	Unresolved. DOES need to provide verifiable evidence that such a system as described is available.

Review of Disability Compensation Program within the DOES
Summary of Findings and Evaluation of Management Response

Exhibit A

Finding	Effect (So What?)	Recommendation	DOES Response	Evaluation of DOES Response	Finding Status
6. Lack of systematic budget process and cost tracking system resulting in significant budget overruns during the past several years.	Affects delivery of service. Providers deny services to claimants for fear of non- payment or delayed payments.	Development of comprehensive policies and procedures for developing budgets and processing all disability claims from the period injury is reported to the time the employee returns to work or transfers from the program.	Management concurs with finding. The "new" TPA will actuarially set reserves for claims and track claims data in a manner which would more accurately define the District's liability exposure each year and provide better predictors of future claims for use in the budget process.	DOES management response is adequate.	Resolved. Follow-up review is recommended to ensure full implementation of the recommendations.

Review of Disability Compensation Program within the DOES
Summary of Findings and Evaluation of Management Response

Exhibit A

Finding	Effect (So What)	Recommendation	DOES Response	Evaluation of DOES Response	Finding Status
7. Lack of implementation of the recommendations from several recent studies and reports, including the 1998 Management Letter issued by the Citywide Independent Auditor and OIG Audit Report No. 9810-20, *Audit of Disability Compensation Overpayments*, dated March 3, 1999. In the February 25, 1999 DOES management response to OIG Report No. 9810-20, DOES management agreed to implement the recommendations, including edit controls to detect dual disability and payroll payments to employees who return to work, procedures to prevent disability payments to employees who are entitled to receive disability payments from other agencies, and collection of disability compensation overpayments.	Continue program inefficiency and ineffectiveness, and waste of valued resources.	Observation of payroll distribution at least once a year by individuals independent of payroll preparation and authorization to identify ineligible claimants, and comparison of DC active payroll to disability payroll to identify individuals on both payrolls.	Management concurs with finding. Payroll distribution and verification audits will be conducted at least twice annually. The agency has begun maintaining electronic copy of payments to claimants with other necessary information, and will use the report to do a match of the DCP payroll with the active DC payroll.	DOES management response is adequate.	Resolved. Follow-up review is recommended to ensure full implementation of the recommendations.

Review of Disability Compensation Program within the DOES
Summary of Findings and Evaluation of Management Response

Exhibit A

Finding	Effect (So What?)	Recommendation	DOES Response	Evaluation of DOES Response	Finding Status
8. The Fiscal Division does not review documentation justifying adding claims to the payroll and there is no supervisory review of payroll generated by the Division.	Opportunity to add fictitious and ineligible claimants to Disability payroll and increase program cost.	Payroll should be reviewed and approved by individuals independent of the processing and authorization.	Management did not concur with finding. The assertion that the Fiscal Division does not review documentation prior to adding claimants to the payroll is not accurate. Documents are reviewed and discrepancies are resolved through consultation with the TPA and OBA. In addition, there is sufficient supervisory review of the payroll. Two accountants and one technician are responsible for preparing the payroll. The work of the technician is reviewed by a DS-14 Fiscal Officer who is not directly involved in the payroll processing. The functions performed by the Fiscal Officer are identical to the review that would be conducted by the CFO. The Fiscal Officer is a Certified Public Accountant and redundant review is not required.	The DOES management response is inadequate. Based on our observation during fieldwork, the controls described by DOES were either not implemented or not functioning as described by DOES.	Unresolved. DOES should implement the recommendations and provide supporting evidence to the OIG.

Review of Disability Compensation Program within the DOES
Summary of Findings and Evaluation of Management Response

Exhibit A

Finding	Effect (So What?)	Recommendation	DOES Response	Evaluation of DOES Response	Finding Status
The Fiscal Division does not maintain current addresses on all claimants and checks are mailed to post office boxes and directly to bank accounts without current residential addresses.	Ineligible claimants may continue to receive benefits thereby increasing the cost of the program. It is also an indication that cases are not being managed.	The DOES should maintain current residential addresses on all claimants.	DOES concur with finding. The OCFO-DOES has identified the 115 employees who receive their checks at post office boxes and through direct deposits to bank accounts. The OCFO-DOES will request current residential addresses from the DCP or OMIDS prior to October 2, 2000 payroll and maintain the listing in its office.	The DOES management response is adequate.	Resolved. Follow-up review is recommended to ensure full implementation of the recommendations.

Appendix B - Full Text of Management Response to Findings and Recommendations

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Department of Employment Services

Gregory P. Irish
Office of the Director

MEMORANDUM

TO: Charles C. Maddox, Esq.
Inspector General

FROM: Gregory P. Irish
Director

DATE: SEP 11 2000

SUBJECT: Audit of the Disability Compensation Program - Draft Report

This is in response to your August 9, 2000 correspondence pertaining to the Draft Report on the "Audit of the Department of Employment Services (DOES) - Disability Compensation Program (DCP)."

While the Department appreciates efforts expended by the auditors in conducting their investigations, disclosures outlined in the Draft Report neglect to reveal findings beyond those in which we were fully aware prior to the auditing process. Also, DOES has remained active in designing and/or instituting corrective action measures. In reviewing recommendations of the auditors, it is noteworthy that novel approaches for addressing and properly rectifying the deficiencies are not described. In fact, recommendations are practically identical to remedies formerly explored and are currently being implemented by DOES.

Likewise, the Office of the Chief Financial Officer (OCFO-DOES) was fully aware of the shortcomings identified by the audit and had started many corrective measures. Inasmuch as action plans have not yet yielded all desired results, the OCFO-DOES will continue to expend efforts to improve performances.

With reference to DOES undertaking efforts to ameliorate inadequacies, in the majority of instances corrective action will occur or initiatives will be more fully implemented at the time that the DCP becomes operational under the charge of a "new" Third Party Administrator (TPA). Specifically, the Department (through use of the Request for Proposal process) is soliciting the services of one qualified contractor to administer the program in its entirety. In brief, required duties and responsibilities of the private firm would include (1) Third Party Administration services; (2) medical cost and utilization management and the development and maintenance of a Preferred Provider Organization for medical care and rehabilitation services; and (3) management information system services, including automated system accessibility.

In responding to areas as outlined in your August 9, 2000 *letter*, the following specifics are herewith provided by DOES as well as the Office of the Chief Financial Officer (OCFO):

Implement a Team to Provide Adequate Oversight and Monitoring of Contractors

The Department realized a need for adequate oversight and monitoring of a TPA contractor. For this reason, a Request for Proposal (RFP) to solicit the services of a firm to provide oversight and consistent contract-monitoring services is being released.

In implementing a comprehensive monitoring plan, the successful bidder will measure performances, determine the quality and efficiency of service delivery and monitor costs and degrees of payments based on performance outcomes. Also, the contractor will be required to prepare and submit to DOES extensive reports of findings and outline recommendations for improvement.

Take Action to Collect Overpayments Estimated at $1 Million

The OCFO-DOES does not agree with the estimate of $1 million in overpayments. A review of the transactions reflected as "Potential Duplicate Payments" is being undertaken and, as appropriate, collection efforts will occur. It is expected that the review will be completed by September 30, 2000.

As to the alleged lack of controls, the Office of the Chief Financial Officer agrees that in Fiscal Year 1999 there were some problems. However, during the latter part of the year, the following controls were put in place to minimize if not eliminate duplicate payments:

- A log of all invoices received and payments made is maintained and updated daily;
- Accounting Technicians are required to check the log for duplicate Explanation of Benefit (EOB) numbers prior to creating a voucher for payment;
- When an invoice for services rendered during a prior year is received, technicians also check the FMS payment system and SOAR to determine whether the payment had been formerly processed and issued;
- The voucher goes through two approvals before payment is made. Due to the high volume of vouchers processed by technicians on a daily basis, at each level steps are repeated to identify whether errors had occurred; and
- Vendors who submit large numbers of invoices are assigned to technicians who often remember invoices processed and are able to immediately identify some duplicates.

While some duplicate payments may be made as a result of human error, the probability of mistakes of the magnitude cited in the report is minimal.

In addition, as soon as OCFO-DOES receives notices that claimants have either returned to work or are deceased, processes are completed to discontinue the issuance of checks. It generally takes several weeks before required reporting documents (to remove claimants from the rolls) are received from the TPA or Office of Benefits Administration (OBA). Since the OCFO-DOES takes required action to remove claimants from the rolls, overpayments do not occur since checks that would have been issued while awaiting official reporting forms were "recovered" through a redepositing effort.

As indicated in the report, in April 2000 the Fiscal Officer conducted an analysis of overpayments. As appropriate, letters were forwarded to claimants seeking repayment of approximately $403,000. To date, approximately $210,000 has been collected. Letters were also sent to vendors seeking repayment of approximately $82,000. To date, $65,000 has been collected. OCFO-DOES will continue its collection efforts.

Develop Procedures for Developing Budgets, Claims Subrogation and Claims Transfer from Disability to Retirement Rolls

Subrogation - In conjunction with a newly designated TPA, the Office of the Corporation Counsel (OCC) will ensure that appropriate subrogation action is effected to recover costs when a party other than the District Government contributes to the work injury or illness. Specifically, the TPA shall be responsible for (a) contacting the claimant, the claimant's counsel and the identified tort feasor concerning the claim and (b) sending required notices of liens on the proceeds of recovery. The OCC will be responsible for litigation to enforce the lien, as necessary.

Retirement Project - The TPA will be responsible for the full implementation of a "Retirement Project" where eligible employees on the DCP rolls can be transitioned into the OPM (Office of Personnel Management) federal civil service retirement system. The success of this project depends in major part upon the voluntary election by claimants to retire under the civil service system.

Most persons who are eligible for retirement elect to remain on the DCP rolls since compensation is usually greater than the monthly annuity. Many of the claimants lack sufficient time in the retirement system to have built sizable retirement benefits, while others have long since withdrawn the amount due from their retirement account. The Retirement Project involves a lump sum settlement from the District in order to encourage persons to elect federal retirement. By its legislative design, this project is intended to serve as a source of potential long term savings by reducing future monetary exposure of the District. Settlements would be made only in cases where it is in the best interest of the claimant and in instances where it is to the financial advantage of the District.

Developing Budgets - The "new" TPA will set reserve amounts to finance the liability for individual claims. As necessary, updates/changes in the reserves would be made with recorded rationale for the change. Also, the TPA will create and maintain state of the art financial systems and controls. The reserving function along with actuarial studies and information/data retained by the TPA in various databases will be used as the baseline in developing reliable budgets as well as in properly tracking information to accurately determine the amount of loss reserves (the value of future payments).

In composing a comprehensive Procedures Manual, the TPA will be required to ensure that the design, processes and requirements in the above three areas are clearly delineated.

Observe Payroll Distributions At Least Once A Year to Identify Ineligible Claimants

The design and implementation of a system to require all claimants to annually establish their continuing eligibility for payments will be a major responsibility of the TPA. Under the provisions of "Claims Investigations and Fraud Surveillance/False Claims" (as outlined in the RFP), the "new" contractor will ensure that benefits are awarded only to eligible recipients. With reference to this once a year process, the Office of Benefits Administration (OBA) will collaborate with the TPA in ensuring that photographs of claimants are on file, at least yearly face-to-face interviews are conducted and that supporting medical documentation is on file.

In addition, the OCFO-DOES acknowledges that payroll distributions and verification audits should be conducted at least twice annually. Such an audit is planned with DCP staff prior to the end of the calendar year.

Compare the District's Active Payroll to the Disability Payroll to Identify Individuals on Both Payrolls

The OCFO-DOES Fiscal Division began maintaining an electronic copy of payments to claimants on August 21, 2000 and will continue to do so. The report includes social security numbers of claimants. Prior to October 31, 2000, OCFO-DOES will use this report to "match" the D.C. payroll. Should results of the "match" warrant, the OCFO-DOES will continue cross-matching efforts each pay day.

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The attached document provides "Comments/Responses" to the issues outlined in the ***Draft Report-Summary of Recommendations***, page iii. You will recognize that in several instances comments/responses have been provided in this memorandum. However, for ready reference details are again delineated in the attachment to conform with your outline. Also, at the end of the "Summary of Recommendations" portion you will find four additional comments/responses from the OCFO concerning various operational areas.

Attachment

COMMENTS/RESPONSES

Provision of adequate controls over payment of benefits and create a team to effect the immediate collection of overpayments.

The OCFO-DOES will continue utilizing the following controls that were put in place to minimize if not eliminate duplicate payments:

- A log of all invoices received and payments made is maintained and updated daily;
- Accounting Technicians are required to check the log for duplicate Explanation of Benefit (EOB) numbers prior to creating a voucher for payment;
- When an invoice for services rendered during a prior year is received, technicians also check the FMS payment system and SOAR to determine whether the payment had been formerly processed and issued;
- The voucher goes through two approvals before payment is made. Due to the high volume of vouchers processed by technicians on a daily basis, at each level steps are repeated to identify whether errors had occurred; and
- Vendors who submit large numbers of invoices are assigned to technicians who often remember invoices processed and are able to immediately identify some duplicates.

In addition to the above, the OCFO-DOES has created a work group to research the potential overpayments identified in the report and to send notices to vendors who were in fact overpaid. OCFO-DOES expects that this project will be completed by September 30, 2000.

Implementation of procedures to eliminate overlapping duties and duplicate processes between the Office of Benefits Administration (OBA) and current and future contractors.

At the time that the original contract (for the administration of the program by a TPA) was executed, it was not the intent of DOES to run parallel programs. However, the fixed contract price and the scope of services restricted the capability of requiring the TPA to process a greater number of claims than was estimated in the contract. Since there was no mechanism for substituting or exchanging claim files (nor could additional files be added without significantly expanding the scope of work), by necessity the OBA has been required to adjudicate recurrences of disability, aggravation of injuries, remands and other claims for benefits. Also, the OBA addressed concerns from vendors involving past due medical bills.

Contract requirements clearly stipulate that the "new" vendor shall assume full responsibility for the administration of the DCP in its entirety. Also, there are provisions which would allow expanded workloads above projected levels. Consequently, there would no longer be a requirement for the OBA to adjudicate claims for compensation.

2 - Comments/Responses

Establishment of a team to provide adequate oversight and consistent monitoring of contractors.

Through contractual arrangement, a private firm will provide oversight and monitoring of the "new" TPA. In utilizing a comprehensive Monitoring Plan, the vendor will measure overall performances and efficiencies of the TPA. It is anticipated that the contractor will begin its monitoring tasks within 90 days following the execution of the "new" contract.

Establishment of policies and procedures for benchmarking, claims subrogation and claims transfer from disability to retirement and recommendations to the Mayor or City Council for legislation on cost charge-backs to agencies.

(A) Claims subrogation activities and full implementation of the Retirement Project will be among the major responsibilities of the TPA.

(B) Under contract, a private firm will continuously conduct monitoring to ensure full compliance of the "new" TPA with contract requirements.

(C) Currently, a pilot project is underway to "charge-back" three District agencies for costs associated with the award of compensation. This initiative is practically synonymous with the federal government mechanism for funding its workers' compensation program. Each year the federal program advises agencies of expenditures associated with work injuries/illnesses and the agencies include these amounts in their budget requests. Through implementation of the pilot project, DOES will be able to fully access the value of implementing a charge-back system. It is anticipated that "charge-back" would save money by encouraging agencies to perform safety reviews, participate in claim matters, avail light duty assignments, etc. An expansion beyond the pilot project level would require legislative authority.

Design and implementation of an integrated information management system to provide information on case management and financial activities of the program.

The "new" TPA shall create and maintain an automated Management Information System (MIS), Automated Claims Database and a system of Financial Controls. In brief, the systems will incorporate accounting, budgeting, case management activities, claims adjudication and analytical tools for the evaluation of risk management and related trend analyses. Also, a client, vendor and payment records system shall be maintained and available to DOES/OBA (for on-line read only access). With reference to an internal financial system, the vendor will ensure (1) capabilities of verifying and approving payments of bills; (2) internal processing to capture expenditure data by agency, including medical charges and compensation payments; and (3) tracking systems to review awards of benefits, expenses associated with the provision of medical care and other related expenses involving the claim for compensation.

3 - Comments/Responses

Currently, the OCFO-DOES maintains an integrated financial accounting and payment system. The system provides up-to-date information regarding the financial activities of the DCP. The OCFO-DOES will continue to maintain detailed transaction data until the fiscal services are provided by the outside contractor.

Development of comprehensive policies and procedures for developing budgets and processing all disability claims from the period that the injury is reported to the time that the employee returns to work or transfers from the program.

The TPA will actuarially set reserves on individual claims, create and maintain integrated case filing systems and establish a database system which will track significant claims data, including payments and expenditures associated with claims. Also, the TPA will establish internal financial systems and controls necessary for auditing, reviewing awards of benefits and for monitoring continuing eligibility. The reserving function together with actuarial studies and the extensive data from financial systems retained by the TPA will be used as the baseline in developing budgets for the DCP. Processes and policies associated with carrying out these responsibilities will be clearly delineated in a comprehensive Procedures Manual composed by the TPA and approved by DOES.

Observation of payroll distribution at least once a year by individuals independent of payroll preparation and authorization to identify ineligible claimants and comparison of D.C. active payroll to disability payroll to identify individuals on both payrolls.

On a continuing basis, the TPA will ensure the award of benefits to eligible recipients. With reference to the once a year process, the OBA will collaborate with the TPA in ensuring that photographs of claimants are on file and that at least yearly face-to-face interviews are conducted.
The OCFO-DOES acknowledges that payroll distribution and verification audits should be conducted at least twice annually. The audits will be conducted with the DCP prior to the end of the calendar year.

Lack of systematic budget process and cost tracking system resulting in significant budget overruns during the past several years.

DCP legislation provides for compensation benefits to be paid under this entitlement program from the Employees' Compensation Fund. Budget overruns of past years are not the result of a failure to request sufficient funding or a failure to monitor the budget.

Since the inception of the program, the Fund has operated on the basis of a "budgetary guesstimate" of the amount needed to defray the District's liability for its injured workers each year. In these circumstances, it is woefully inaccurate to decry "significant budget overruns during the past several years." Where the legislative budgetary guess has been lower than the District's liability exposure (as it frequently has been), additional funds have been added.

4 - Comments/Responses

The "new" TPA will actuarially set reserves for claims and track claims data in a manner which would more accurately define the District's liability exposure each year and provide better predictors of future claims for use in the budget process. Yet, unless the information is properly used in establishing sound budgets, overruns will continue to occur.

The Fiscal Division does not review documentation justifying adding claims to the payroll and there is no supervisory review of payrolls generated by the Division.

The assertion that the Fiscal Division does not review documentation prior to adding claimants to the payroll is not accurate. Documents are reviewed and discrepancies are resolved through consultation with the TPA and OBA.

In addition, there is sufficient supervisory review of the payroll. The payroll generated by the Fiscal Division is based on information provided by the TPA and OBA. Two accountants and one technician are responsible for preparing the payroll. The work of the technician is reviewed by a DS-14 Fiscal Officer who is not directly involved in the payroll processing. The functions performed by the Fiscal Officer are identical to the review that would be conducted by the CFO. The Fiscal Officer is a Certified Public Accountant and redundant review is not required.

The Fiscal Division needs to obtain and maintain current addresses on all claimants and stop mailing checks to post office boxes and direct deposits to bank accounts for claimants where the agency does not have current residential addresses.

Claimants report address changes to DOES through Claims Examiners, who are responsible for maintaining contact information such as current addresses. It would serve no useful purpose for the OCFO-DOES to maintain separate address data. Most likely separate systems for Claims and Fiscal would result in conflicting information and inefficiency. Therefore, the OCFO-DOES, the DCP and OMIDS have agreed to develop a shared database of current mailing and residential addresses. OMIDS will be responsible for entering all changes in mailing addresses, which will be provided to OMIDS through the DCP.

The OCFO-DOES has identified the 115 employees who receive their checks at post office boxes and through direct deposits to bank accounts. The OCFO-DOES will request current residential addresses from the DCP or OMIDS prior to the October 2, 2000 payroll and maintain the listing in its office.

Medical Bills Payment Controls.

The OCFO-DOES Fiscal Division logs and tracks not only bills approved for payment but also logs of duplicates submitted for payment. The OCFO has sought to reconcile bills approved for payment by the TPA. However, the TPA's failure to maintain a log makes that impossible.